

## PHU NHUAN JEWELRY JSC (PNJ) – UPDATE

<b>Market Price</b>	<b>Target Price</b>	<b>Dividend Yield</b>	<b>Rating</b>	<b>Sector</b>
VND63,000	VND78,800	2.3%	ADD	CONSUMER GOODS

28 May 2020

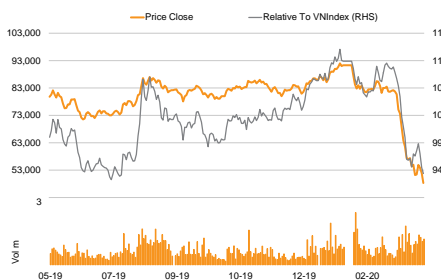
**Outlook – Short term:** Neutral  
**Outlook – Long term:** Neutral  
**Valuation:** Positive

Consensus\*: Add:9 Hold:3 Reduce:0  
Target price / Consensus: 1.6%

### Key changes in the report

- FY20F net profit decreased by 30.5%

### Price performance



Source: VND RESEARCH

### Key statistics

52w high (VND)	92,000
52w low (VND)	48,300
3m Avg daily value (VNDmn)	53,302
Market cap (VND bn)	11,687
Free float (%)	64
TTM P/E (x)	12.0
Current P/B (x)	2.85

### Ownership

Cao Thi Ngoc Dung	9.0%
LGM Investments Ltd	4.4%
Route One Investment Company	3.9%

Source: VND RESEARCH

### Analyst(s):



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## Navigating through challenges

- PNJ's revenue dropped 47% yoy to VND501bn and the company recorded a net loss of VND89bn (-268% yoy) in Apr 2020.
- We believe 2Q20F results will be hit harder by the shop closure due to COVID-19 outbreak.
- Upgrade to ADD rating with lower TP of VND78,800.

### Social distancing measures weighed on April performance

Phu Nhuan Jewelry Joint Stock Company's (PNJ) reported net loss of VND89bn in April 2020 (compared with net profit of VND53bn in April 2019) due to a 47% yoy drop in net revenue and a 16.2% pts contraction in GM (from 24.6% to 8.4%). The majority of PNJ's stores were closed due to aggressive social distancing measures from 1 Apr to 22 Apr to slow the spread of the coronavirus pandemic (Covid-19). Consequently, 4M20 revenue and net profit declined 4% and 34% yoy, respectively.

### May performance brings positive signs, but it may not last long

With the Covid-19 counter measures easing from end of Apr, PNJ said that its retail business recovered positively with sale per store growth of c.20% yoy in the first half of May 2020. However, we think current performance was the results of pent-up demand over the social-distancing period instead of a bounce back in jewelry consumption. PNJ's results will be hit hard in 2Q20F, then slightly recover in 2H20F, in our view.

### Changes to our forecast

We cut our FY20F net revenue/net profit forecasts by 6.6%/30.5%, respectively, due to 1) lower sales of the retail segment (-15.1% vs. old forecast) and sales of wholesale segment (-2.5% vs. old forecast; and 2) a slower store opening speed (only 10 PNJ gold stores in FY20F vs. 20 in previous forecast).

### Upgrade to ADD with lower TP of VND78,800

We trim our DCF-based TP by 10.3% following a 30.5% downward revision in FY20F EPS and our EBIT FY20-29F CAGR to 7.8% (vs. 8.7% in previous forecast) due to the impact of the outbreak and consumers' caution about the global economy. However we upgrade to ADD on the current price weakness. Potential re-rating catalysts include 1) faster-than-expected store opening, 2) better-than-expected recovery after the pandemic, and 3) new projects which are expected to boost sales. Downside risk to our call is the next wave of COVID-19 outbreak in Vietnam.

Financial summary (VND)	12-18A	12-19A	12-20E	12-21E
Net revenue (bn)	14,573	17,001	17,215	19,208
Revenue growth	32.8%	16.7%	1.3%	11.6%
Gross margin	19.1%	20.4%	17.9%	18.1%
EBITDA margin	9.0%	9.8%	8.0%	8.9%
Net profit (bn)	960	1,191	978	1,258
Net profit growth	32.4%	24.1%	(17.9%)	28.6%
Basic EPS	4,312	5,287	4,341	5,584
Adjusted EPS	3,889	4,847	3,875	5,096
BVPS	16,819	20,303	22,842	26,632
ROAE	28.7%	28.6%	20.1%	22.6%

Source: VND RESEARCH

### First strike from COVID-19 on 1Q20 results

PNJ's 1Q20 revenue rose 4.5% yoy to VND5,001bn thanks to the sharp increase of 15% yoy in gold bar sales and an 8% yoy rise in the retail sales built on the growth momentum in 2M20, while the wholesale segment revenue decreased 17% yoy. PNJ's net profit fell 4.8% yoy to VND408bn and gross profit margin narrowed to 21.0% in 1Q20 from 21.9% in 1Q19 as a large proportion of revenue came from gold bar, which has lower profit margin than other segments. 1Q20 net financial expense surged 78% yoy to VND41.5bn as PNJ's debt increased to VND2,610bn at end-2019 from VND1,558bn at end-2018.

In Mar 2020, PNJ's revenue still rose 6.3% yoy to VND1,356bn thanks to a 75% yoy surge in gold bar revenue, offsetting the declines of the retail segment (-10% yoy) and wholesale segment (-6% yoy). Net profit only reached VND64bn, down 37% yoy, as PNJ had to close some stores in Hanoi in late Mar 2020 and demand also decreased due to the COVID-19.

Figure 1: 1Q20 results review

FYE (VNDbn)	1Q20	1Q19	% yoy	vs. FY20 forecast	Comments
<b>Net revenue</b>	<b>5,001.0</b>	<b>4,784.0</b>	<b>4.5%</b>	<b>29.1%</b>	Gold bar revenue increased strongly by 15% yoy due to high demand for gold bars due to the impact of Covid-19 epidemic and the crash of world economy. Retail sales in 1Q20 still increased by 8% yoy thanks to the growth momentum in 2M20.
<i>Jewellery revenue</i>	4,966.2	4,762.6	4.3%		
<i>Accessories</i>	22.5	8.4	167.9%		
<i>Services</i>	12.2	12.4	-1.6%		
<b>Gross profit</b>	<b>1,050.0</b>	<b>1,049.0</b>	<b>0.1%</b>	<b>34.0%</b>	Mixed gross profit margin is still higher than our forecast as we expect the proportion of gold bar sales will continue to increase in 20F.
<i>Gross profit margin</i>	21.0%	21.9%	-0.9% pts		
Selling expenses	368.0	367.2	0.2%	26.5%	
<i>as % of revenue:</i>	7.4%	7.7%	-0.3% pts		
G&A expenses	128.1	115.6	10.8%	32.7%	
<i>as % of revenue:</i>	2.6%	2.4%	+0.2% pts		
<b>Operating profit</b>	<b>553.9</b>	<b>566.2</b>	<b>-2.2%</b>	<b>42.3%</b>	
<b>Net financial expense</b>	<b>41.6</b>	<b>23.3</b>	<b>78.5%</b>		
<b>Pre-tax profit</b>	<b>511.7</b>	<b>543.2</b>	<b>-5.8%</b>	<b>41.9%</b>	
<b>Net profit</b>	<b>408.3</b>	<b>428.8</b>	<b>-4.8%</b>	<b>41.8%</b>	Inline with our forecast with expectation PNJ's results will be hit hard in 2Q20F then slightly recover in 2H20F
<b>Net margin</b>	<b>8.2%</b>	<b>9.0%</b>	<b>-0.8% pts</b>		

Source: PNJ, VNDIRECT RESEARCH

### 2Q20F results will be hit harder, in our view

In 1Q20, PNJ opened six new jewelry stores and two new watch stores, but it closed two jewelry stores at the same time, bringing its total outlet stores to 350 at end-Mar. Following the social distancing measures to curb the virus spread, PNJ closed 85% of its stores nationwide for 14 days starting on 1 Apr 2020.

The company reported that PNJ's revenue dropped 47% yoy to VND501bn and recorded net loss of VND89bn (-268% yoy) in Apr 2020. Blended profit margin dropped from 24.6% in Apr 2019 to 8.4% in Apr 2020 due to the 62% yoy decline in retail sales revenue and a sharp increase in gold bar sales of 42% yoy. Therefore, given the double impact from store closing and the drop in jewelry demand, we believe that 2Q20F results will be heavily affected by COVID-19, but the bottomline could recover in 2H20F along with Vietnam's economy after the epidemic.

### We expect a slight recovery in 2H20F

**Demand for gold bar is growing strongly** due to the impact of the pandemic and the slowdown in global economy. Gold bar price was driven into an upward trend and increased 22% yoy at end-1Q20. We believe that PNJ's gold bar

sales in the remaining three quarters of 2020F will maintain the strong momentum seen in 1Q20.

**The wholesale segment is the worst hit** by the pandemic after 1) exports faced disruptions in 1Q20, 2) wholesale buyers have reduced stocking amid rising gold prices, which even hit a record high, and 3) the number of jewelry stores is expected to shrink as demand is expected to weaken after the pandemic.

**Jewelry retail sales will be resilient since 2Q20F** when PNJ re-opened all of their stores since May 20.

Therefore, we adjust the outlook for PNJ, with the following projections:

- (1) Slower store opening, with the number of new stores in 2020F/21F cut to 10/10 stores (vs. 21/20 stores in previous forecast);
- (2) Gold bar sales growth in FY20F raised to 15% yoy (vs. 5% yoy);
- (3) Wholesale revenue growth in FY20F adjusted to -22% yoy (vs. -20% yoy);
- (4) Average gold store sales growth in FY20F adjusted to -11% yoy (vs. 3% yoy);
- (5) Average silver store sales growth in FY20F adjusted to -20% yoy (vs. 2% yoy in our previous forecast).

Figure 2: Earnings revision

	2020F		%Δ	2021F	Comments
	Old	New			
<b>Net revenue</b>	<b>18,440</b>	<b>17,215</b>	<b>-6.6%</b>	<b>19,208</b>	
Retail revenue	10,876	9,236	-15.1%	9,236	We have revised our forecast with the expectation PNJ will slightly recover in 2H20, after being hit hard in 2Q20F due to the double effects from store closure and lower demand in gold accessories.
Wholesale revenue	3,046	2,970	-2.5%	2,970	
Gold bar revenue	3,942	4,592	16.5%	4,592	
<i>Net revenue growth</i>	<i>16.7%</i>	<i>1.3%</i>		<i>11.6%</i>	
Gross profit	3,782	3,089	-18.3%	3,480	
<b>Gross profit margin</b>	<b>20.5%</b>	<b>17.9%</b>	<b>-2.6% pts</b>	<b>18.1%</b>	Gross profit margin plummeted due to the higher contribution of gold piece segment, while high profit margin segment such as retail was adjusted down due to the decline in demand and the impact of COVID-19
Selling expenses	1,521	1,388	-8.7%	1,427	
as % of revenue:	8.2%	8.1%	-0.1% pts	7.4%	
G&A expenses	408	392	-3.9%	403	
as % of revenue:	2.2%	2.3%	+0.1% pts	2.1%	
Operating profit	1,853	1,309	-29.4%	1,650	
EBT	1,760	1,222	-30.6%	1,574	
Net profit	1,408	978	-30.5%	1,259	
<i>Net margin</i>	<i>7.6%</i>	<i>5.7%</i>	<i>-1.9% pts</i>	<i>6.6%</i>	

Source: VNDIRECT RESEARCH

We expect PNJ to post a 11.6% yoy and a 28.6% yoy growth in net revenue and net profit in FY21F, respectively, as 1) revenue per gold store is expected to grow 7.0% in 2021F then grow 3%/year afterwards, while that of a silver store will rise 2.0%/year, 2) 10 new stores will be opened in FY21F, and 3) gross margin is expected to expand 0.2% pts to 18.1% in FY21F on an expected lower demand for gold bars.

## Valuation

We upgrade our rating from HOLD to ADD with a lower TP of VND78,800, due to the sharp fall in PNJ price in Mar and Apr 2020, which translates to a potential upside of 25.1% from current price (VND63,000, at 27<sup>th</sup> May 2020). We revise our FY20F EPS downward by 30.5% and our EBIT FY20-29F CAGR to 7.8% (vs. 8.7% in previous forecast) due to the pandemic impact and consumers' caution about the global economy. Accordingly, we trim our DCF-based target price to VND78,800. Potential re-rating catalysts include 1) faster-than-expected store opening, 2) better-than-expected recovery after the pandemic, and 3) new projects which are expected to boost sales. Downside risk to our call is the next wave of COVID-19 outbreak in Vietnam.

Figure 3: Discounted Cash Flow (DCF Valuation)

DCF Valuation	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
EBIT	1,309	1,650	1,841	2,025	2,285	2,441	2,607	2,876	3,028	3,187	3,555
Tax	-244	-315	-352	-388	-439	-469	-502	1,263	1,619	1,309	1,650
Depreciation	56	61	74	90	103	118	136	150	164	181	199
Capex	-121	-267	-352	-293	-336	-386	-296	-325	-357	-393	-432
Change in working cap	714	-445	-532	-648	-198	-181	-184	1	5	-11	101
Free Cash Flows	1,714	684	679	786	1,415	1,523	1,761	2,147	2,255	2,346	2,708
Present Value of FCF	1,628	588	530	550	891	868	916	1,009	947	891	948

Source: VNDIRECT RESEARCH

Figure 4: Assumptions

Cost of Capital	Current
Beta	0.9
Market Risk Premium	10.1%
Risk Free Rate	4.0%
Cost of Equity	13.5%
Cost of Debt	5.0%
Corporate Tax Rate	20.0%
WACC	10.7%

Source: VNDIRECT RESEARCH

Figure 5: Target valuation

DCF Method	Amount	Unit
PV of Free Cash Flows	7,190	VNDbn
PV of Terminal Value (2.0% growth)	11,312	VNDbn
<b>Enterprise value</b>	<b>18,502</b>	<b>VNDbn</b>
Cash and cash equivalents	974	VNDbn
Total debts	(1,725)	VNDbn
Equity Value	17,751	VNDbn
Shares	225	million
<b>Price per share</b>	<b>78,800</b>	<b>VND/share</b>

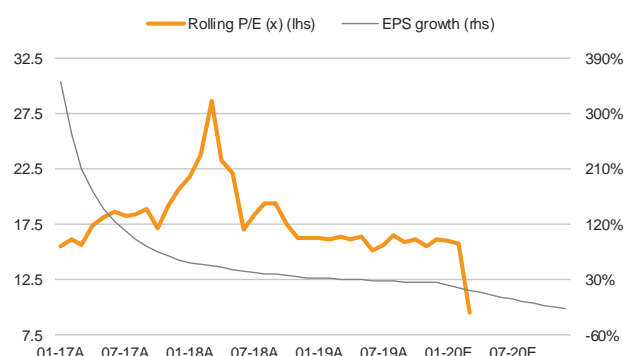
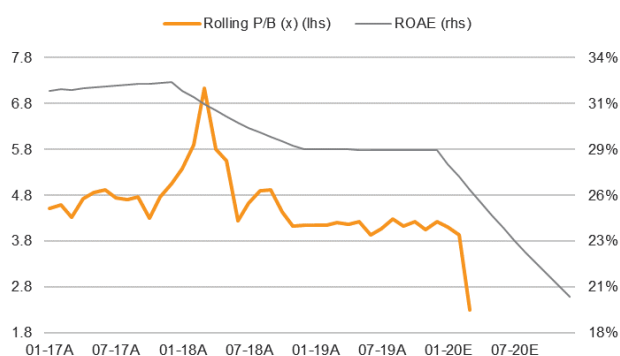
Source: VNDIRECT RESEARCH

Figure 6: Peer Comparison

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY20F	FY21F		TTM	FY20F	FY21F	TTM	FY20F	FY21F	TTM	FY20F	FY21F
<b>Retail jewelry companies</b>																		
Phu Nhuan Jewelry JSC	PNJ VN	ADD	63,000	77,300	608.2	12.00	14.23	11.74	31.96	2.85	2.71	2.32	26.00	22.76	23.26	16.14	13.72	14.78
Tiffany & Co	TIF US	NR	125.4	NA	15,212	27.25	66.19	31.95	12.50	4.57	4.07	3.82	16.80	8.23	10.11	9.02	NA	NA
Chow Tai Fook Jewellery Group Ltd	1929 HK	NR	5.74	NA	7,404	13.76	16.17	13.76	16.57	2.18	1.87	1.81	15.01	11.27	14.02	6.83	6.47	8.27
LEYSEN Jewelry Inc	603900 CH	NR	8.19	NA	389.6	40.19	NA	NA	-18.13	1.19	NA	NA	2.87	NA	NA	2.50	NA	NA
Chow Sang Sang Holdings International Ltd	116 HK	NR	7.35	NA	642.2	7.74	7.31	5.04	-0.96	0.47	0.45	0.43	6.11	6.22	9.01	4.28	4.87	6.04
<b>Average - Retail jewelry peers</b>						<b>22.23</b>	<b>29.89</b>	<b>16.92</b>	<b>2.50</b>	<b>2.10</b>	<b>2.13</b>	<b>2.02</b>	<b>10.20</b>	<b>8.57</b>	<b>11.05</b>	<b>5.66</b>	<b>5.67</b>	<b>7.15</b>
<b>Median - Retail jewelry peers</b>						<b>20.51</b>	<b>16.17</b>	<b>13.76</b>	<b>5.77</b>	<b>1.68</b>	<b>1.87</b>	<b>1.81</b>	<b>10.56</b>	<b>8.23</b>	<b>10.11</b>	<b>5.55</b>	<b>5.67</b>	<b>7.15</b>

All prices are based on the closing prices on 27 May 2020. All estimates for Non-rated (NR) stocks are based on Bloomberg consensus estimates

Source: BLOOMBERG, VNDIRECT RESEARCH

**Valuation**

**Income statement**

(VNDbn)	12-19A	12-20E	12-21E
Net revenue	17,001	17,215	19,208
Cost of sales	(13,540)	(14,126)	(15,728)
Gen & admin expenses	(479)	(392)	(403)
Selling expenses	(1,363)	(1,388)	(1,427)
<b>Operating profit</b>	<b>1,619</b>	<b>1,309</b>	<b>1,650</b>
Operating EBITDA	1,675	1,365	1,711
<b>Depreciation and amortisation</b>	<b>(56)</b>	<b>(56)</b>	<b>(61)</b>
<b>Operating EBIT</b>	<b>1,619</b>	<b>1,309</b>	<b>1,650</b>
Interest income	2	8	9
Financial expense	(119)	(95)	(85)
Net other income	1	0	(1)
Income from associates & JVs	0	0	0
<b>Pre-tax profit</b>	<b>1,503</b>	<b>1,222</b>	<b>1,573</b>
Tax expense	(312)	(244)	(315)
Minority interest	0	0	0
<b>Net profit</b>	<b>1,191</b>	<b>978</b>	<b>1,258</b>
Adj. net profit to ordinary	1,191	978	1,258
Ordinary dividends	(344)	(406)	(406)
<b>Retained earnings</b>	<b>847</b>	<b>572</b>	<b>852</b>

**Balance sheet**

(VNDbn)	12-19A	12-20E	12-21E
Cash and equivalents	95	974	751
Short term investments	0	0	0
Accounts receivables	138	163	184
Inventories	7,019	6,052	6,588
Other current assets	78	139	118
<b>Total current assets</b>	<b>7,330</b>	<b>7,328</b>	<b>7,641</b>
Fixed assets	923	989	1,192
Total investments	0	0	0
Other long-term assets	346	344	352
<b>Total assets</b>	<b>8,599</b>	<b>8,661</b>	<b>9,185</b>
Short-term debt	2,611	1,722	1,537
Accounts payable	688	467	579
Other current liabilities	719	1,316	1,063
<b>Total current liabilities</b>	<b>4,018</b>	<b>3,505</b>	<b>3,179</b>
Total long-term debt	4	4	4
Other liabilities	3	6	3
Share capital	2,253	2,253	2,253
Retained earnings reserve	1,042	1,670	2,450
<b>Shareholders' equity</b>	<b>4,574</b>	<b>5,146</b>	<b>6,000</b>
Minority interest	0	0	0
<b>Total liabilities &amp; equity</b>	<b>8,599</b>	<b>8,661</b>	<b>9,185</b>

**Cash flow statement**

(VNDbn)	12-19A	12-20E	12-21E
<b>Pretax profit</b>	<b>1,503</b>	<b>1,222</b>	<b>1,573</b>
Depreciation & amortisation	56	56	61
Tax paid	(291)	(244)	(315)
Other adjustments	(186)	(94)	46
<b>Change in working capital</b>	<b>(1,757)</b>	<b>1,265</b>	<b>(671)</b>
<b>Cash flow from operations</b>	<b>(675)</b>	<b>2,205</b>	<b>694</b>
Capex	(208)	(121)	(267)
Proceeds from assets sales	1	1	1
Others	1	0	0
Other non-current assets changes	0	89	(60)
<b>Cash flow from investing activities</b>	<b>(206)</b>	<b>(31)</b>	<b>(326)</b>
New share issuance	69	0	0
Shares buyback	(2)	0	0
Net borrowings	1,048	(889)	(185)
Other financing cash flow	(2)	0	0
Dividends paid	(344)	(406)	(406)
<b>Cash flow from financing activities</b>	<b>769</b>	<b>(1,295)</b>	<b>(591)</b>
Cash and equivalents at beginning of period	207	95	974
<b>Total cash generated</b>	<b>(112)</b>	<b>879</b>	<b>(223)</b>
Cash and equivalents at the end of period	95	974	751

**Key ratios**

	12-19A	12-20E	12-21E
<b>Dupont</b>			
Net profit margin	7.0%	5.7%	6.5%
Asset turnover	2.28	1.99	2.15
ROAA	16.0%	11.3%	14.1%
Avg assets/avg equity	1.79	1.78	1.60
ROAE	28.6%	20.1%	22.6%
<b>Efficiency</b>			
Days account receivable	1.0	1.4	1.3
Days inventory	189.2	156.8	152.9
Days creditor	18.5	12.1	13.4
Fixed asset turnover	20.71	18.01	17.61
ROIC	16.6%	14.2%	16.7%
<b>Liquidity</b>			
Current ratio	1.8	2.1	2.4
Quick ratio	0.1	0.4	0.3
Cash ratio	-	0.3	0.2
Cash cycle	171.7	146.1	140.8
<b>Growth rate (yoy)</b>			
Revenue growth	16.7%	1.3%	11.6%
Operating profit growth	28.3%	(19.1%)	26.1%
Net profit growth	24.1%	(17.9%)	28.6%
EPS growth	22.6%	(17.9%)	28.6%

Source: VND RESEARCH

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**RECOMMENDATION FRAMEWORK**

**Stock Ratings**

Definition:

- Add                    The stock’s total return is expected to reach 15% or higher over the next 12 months.
- Hold                    The stock’s total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce                The stock’s total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight            An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral                A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight         An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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